

NSC BRIEFING

NEAR EAST-AFRICA

Approved For Release 2003/10/01 : CIA-RDP79R00890A000300020033-6

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25 May 1954

DOCUMENT NO. 19

NO CHANGE IN CLASS.

DECLASSIFIED

CLASS. CHANGED TO: TS S C

EXT. REVIEW DATE:

AUTH: HR 70-2

DATE: 1-7-80 REVIEWER: []

BACKGROUND

STATUS IRANIAN OIL NEGOTIATIONS

Discussions in Tehran for a settlement of the Anglo-Iranian oil dispute are temporarily suspended to permit consortium negotiators to consult in London with their principals.

Iranian Negotiators Observe Limits of Oil Nationalization

Iranian negotiators have been insistent from the beginning that any agreement must conform to the oil nationalization law. Consequently, they have rejected the consortium's plan which provides that the operating companies be incorporated in Britain, and that the consortium operate the oil industry for its own account. Iran flatly rejects British nationality of the operating companies and insists that management be vested in Iranians.

"Agency" Arrangement Proposed

The threatened deadlock eased somewhat when both sides agreed to explore, without abandoning their original positions, the possibility of an agreement which would give the consortium effective control of oil operations but as an agent for Iran. The Shah has State Department review completed

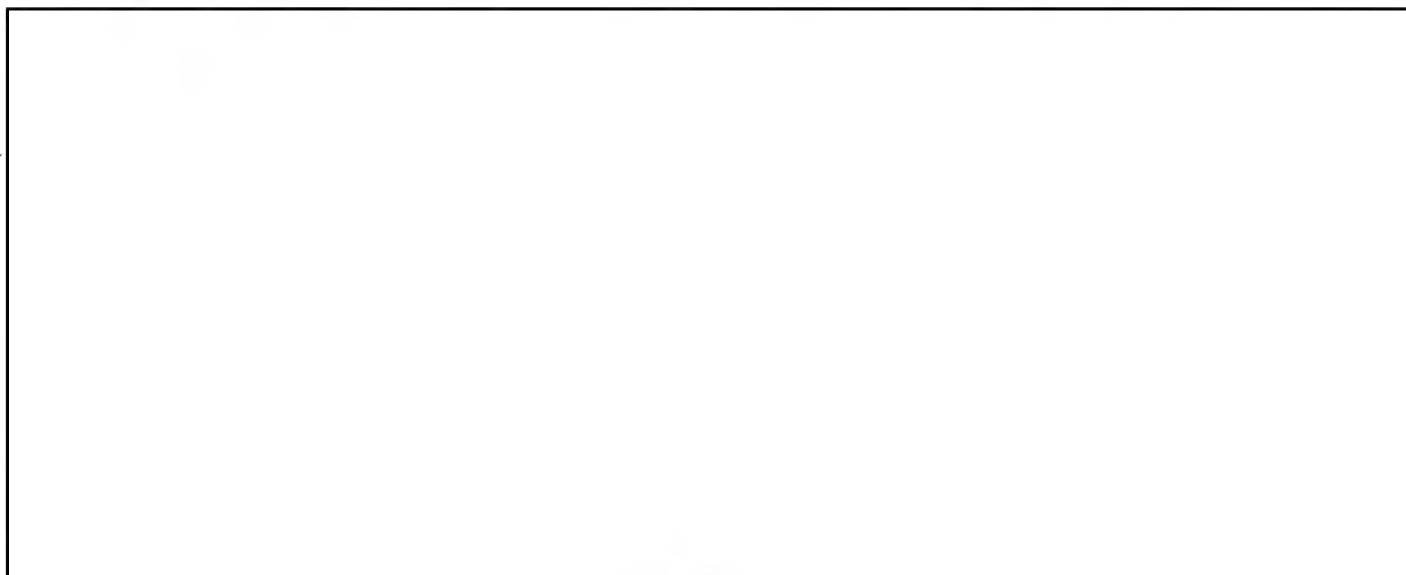
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expressed approval of this type of an arrangement which would probably be acceptable to Iranian public opinion. The attitude of the consortium principals as a whole toward such an arrangement is unclear, although the American members are understood to be agreeable. The opening of London discussions has been postponed until 1 June and the consortium's views probably will not be known for one or two weeks.

Ambassador Henderson believes that only an agency agreement will be workable. He considers that any attempt to push through arrangement which gives the consortium sole and exclusive control would not last.



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Production Program

Iran is reluctant to accept consortium's decision concerning rate of production anticipated for first three years--10 million tons first year, 20 million second, 25 million third and 30 million tons per year thereafter. Iranian proposal calls for crude production of 15 million, 25 million and 35 million tons, respectively, for the first three years and a guarantee that after the fifth year Iran's annual production would be not less than one third the total Middle East production--probably 40-50 million tons per

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year. This may be compared with the 33 million tons of crude produced in 1950, the last complete year before nationalization.

Compensation and Convertability

Concurrently with the consortium negotiations, talks are also going on between Iran and Britain on a governmental level. These are concerned with the matter of compensation and the convertability of the sterling with which Iran will be paid its share of the oil

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profits. [REDACTED]

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The British have agreed to allow Iran to convert into dollars up to 40 percent of sterling it receives as oil royalties. Iran's

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dollar needs will be reviewed periodically, however, and more than 40% convertability may be permitted. This agreement is contingent on the successful conclusion of over-all negotiations. Consortium representatives probably will return to Tehras between 10 and 15 June and the talks are expected to continue for several months before a decision is reached.

Domestic Political Repercussions in Iran

Meanwhile, Prime Minister Zahedi is working against time. Majlis is meeting regularly but deputies are restive and seem unwilling to commit themselves on any issue until some developments are apparent in oil negotiations.

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opposition faction is shaping up in the Majlis which has been able to embarrass the government twice in recent weeks on minor issues. When this opposition has become stronger, and tested its strength on other issues, it probably will attack Zahedi on the oil issue.

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Outside the Majlis, Tudeh and fellow travelers will probably take advantage of delay to build opposition to any agreement. Should they be successful, even the most favorable arrangement would have little chance of acceptance.